

PEKIN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Notes to Financial Statements		22-32
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Fund		33
Notes to Required Supplementary Information - Budgetary Reporting		34
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	36
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	37
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	38
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		39-40
Schedule of Findings		41-44

Pekin Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
David Hollinsworth	President	2008
Jerry Gott	Vice-President	2006
David Bennett	Board Member	2006
Harlan Van Voorst	Board Member	2006
Mike Spilman	Board Member	2007
Greg Millikin	Board Member	2007
Andrew Adam	Board Member	2008
Board of Education (After September 2006 Election)		
David Hollinsworth	President	2008
David Bennett	Vice-President	2009
Mike Spilman	Board Member	2007
Greg Millikin	Board Member	2007
Andrew Adam	Board Member	2008
Don Deutsch	Board Member	2009
Harlan Van Voorst	Board Member	2009
School Officials		
Dr. Roger Macklem	Superintendent	2007
Connie Linney	District Secretary/Treasurer and Business Manager	2007
Richard Gaumer	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Pekin Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pekin Community School District, Pekin, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pekin Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2008 on our consideration of Pekin Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pekin Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pekin Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,949,768 in fiscal 2006 to \$6,218,170 in fiscal 2007, while General Fund expenditures increased from \$5,990,378 in fiscal 2006 to \$6,200,778 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$339,912 in fiscal 2006 to a balance of \$357,304 in fiscal 2007, a 5.12% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local tax sources in fiscal 2007. The increase in expenditures was due primarily to an increase in the salary and benefits in the instruction functional area.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Pekin Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Pekin Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Pekin Community School District acts solely as an agent or custodial for the benefit of those outside of District government.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Pekin Community School District Annual Financial Report

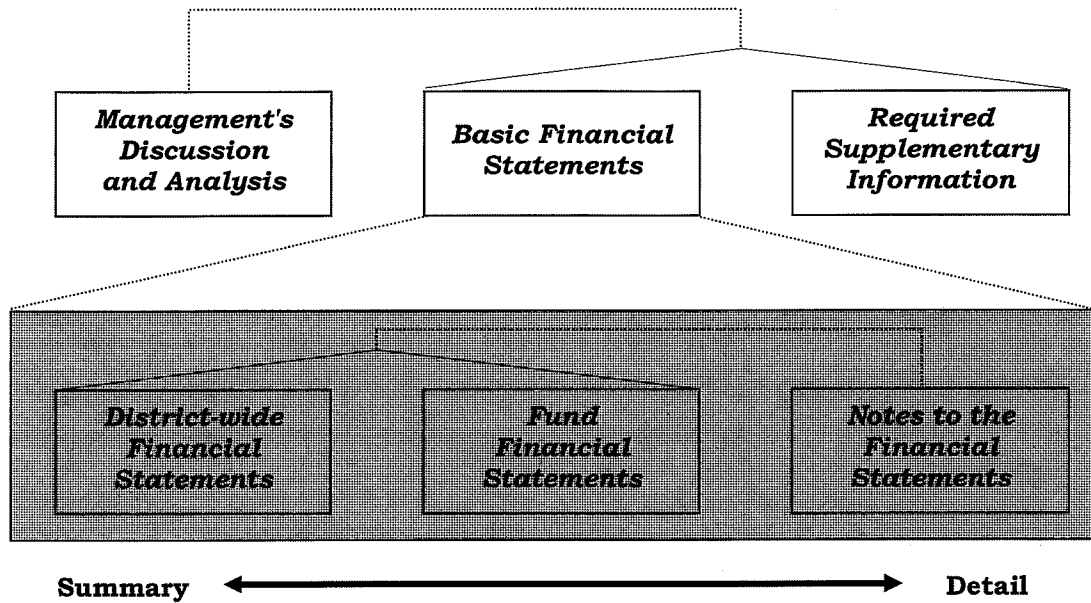


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the

District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and day care programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Day Care Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 5,052,964	4,530,371	70,020	61,374	5,122,984	4,591,745	11.57%
Capital assets	3,363,854	3,417,791	483,688	504,423	3,847,542	3,922,214	-1.90%
Total assets	8,416,818	7,948,162	553,708	565,797	8,970,526	8,513,959	5.36%
Long-term obligations	152,471	288,939	0	0	152,471	288,939	-47.23%
Other liabilities	3,627,361	3,424,857	15,933	5,590	3,643,294	3,430,447	6.20%
Total liabilities	3,779,832	3,713,796	15,933	5,590	3,795,765	3,719,386	2.05%
Net assets:							
Invested in capital assets, net of related debt	3,238,854	3,206,650	483,688	504,423	3,722,542	3,711,073	0.31%
Restricted	999,731	612,458	0	0	999,731	612,458	63.23%
Unrestricted	398,401	415,258	54,087	55,784	452,488	471,042	-3.94%
Total net assets	\$ 4,636,986	4,234,366	537,775	560,207	5,174,761	4,794,573	7.93%

The District's combined net assets increased by 7.93%, or \$380,188, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted Net Assets - Restricted net assets, which represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used, increased \$387,273, or 63.23%. The increase was primarily a result of the District receiving more in Local Option Sales and Services Tax monies increasing the Capital Projects fund balance.

Unrestricted Net Assets - Unrestricted net assets, that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased \$18,544, or 3.94%. This decrease in unrestricted net assets was a result of the District's decrease in the Enterprise, School Nutrition and Day Care net assets.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 667,065	759,013	300,536	294,578	967,601	1,053,591	-8.16%
Operating grants and contributions and restricted interest	777,895	745,819	153,318	132,443	931,213	878,262	6.03%
General revenues:							
Property tax	2,625,595	2,490,230	0	0	2,625,595	2,490,230	5.44%
Income surtax	181,662	144,381	0	0	181,662	144,381	25.82%
Local option sales and services tax	413,118	322,988	0	0	413,118	322,988	27.91%
Unrestricted state grants	2,606,358	2,595,523	0	0	2,606,358	2,595,523	0.42%
Other	284,425	66,230	1,168	875	285,593	67,105	325.59%
Total revenues	7,556,118	7,124,184	455,022	427,896	8,011,140	7,552,080	6.08%
Program expenses:							
Governmental activities:							
Instruction	4,610,993	4,365,304	0	0	4,610,993	4,365,304	5.63%
Support services	1,835,654	1,984,520	0	0	1,835,654	1,984,520	-7.50%
Non-instructional programs	25,834	2,056	480,503	444,240	506,337	446,296	13.45%
Other expenses	681,017	397,343	0	0	681,017	397,343	71.39%
Total expenses	7,153,498	6,749,223	480,503	444,240	7,634,001	7,193,463	6.12%
Changes in net assets before capital contributions	402,620	374,961	(25,481)	(16,344)	377,139	358,617	5.16%
Capital contributions	0	0	3,049	0	3,049	0	100.00%
Changes in net assets	402,620	374,961	(22,432)	(16,344)	380,188	358,617	6.02%
Beginning net assets	4,234,366	3,859,405	560,207	576,551	4,794,573	4,435,956	8.08%
Ending net assets	\$ 4,636,986	4,234,366	537,775	560,207	5,174,761	4,794,573	7.93%

In fiscal 2007, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 77.11% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.74% of the revenue from business type activities.

The District's total revenues were approximately \$8.0 million of which \$7.6 million was for governmental activities and less than \$.4 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.08% increase in revenues and a 6.12% increase in expenses. The increase in expenses related to increase in the negotiated salary and benefits, as well as increases in utilities and transportation costs.

Governmental Activities

Revenues for governmental activities were \$7,556,118 and expenses were \$7,153,498. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services				Net Cost of Services		
	#	2007	2006	Change	2007	2006	Change
				2006-07			2006-07
Instruction	\$	4,610,993	4,365,304	5.63%	3,385,357	3,065,626	10.43%
Support services		1,835,654	1,984,520	-7.50%	1,831,617	1,984,520	-7.70%
Non-instructional programs		25,834	2,056	1156.52%	25,834	2,056	1156.52%
Other expenses		681,017	397,343	71.39%	465,730	192,189	142.33%
Totals	\$	7,153,498	6,749,223	5.99%	5,708,538	5,244,391	8.85%

- The cost financed by users of the District's programs was \$667,065.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$777,895.
- The net cost of governmental activities was financed with \$2,625,595 in property tax, \$181,662 in income surtax, \$413,118 in local option sales and services tax, \$2,606,358 in unrestricted state grants, \$177,767 in interest income and \$106,658 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$455,022 and expenses were \$480,503. The District's business-type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Pekin Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,281,988, above last year's ending fund balances of \$987,579. However, the primary reason for the increase in combined fund balances in fiscal 2007 is due to the District receiving more local option sales and services tax monies.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the product of many factors. During the year total expenses were less than total revenues allowing the fund balance to increase \$17,392.
- The Capital Projects Fund balance increased from \$393,247 in fiscal 2006 to \$619,052 in fiscal 2007. This increase was the result of the District receiving more local option sales and services tax monies.

Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$560,207 at June 30, 2006 to \$537,775 at June 30, 2007, representing a decrease of 4.00%. For fiscal 2007, the District had increased costs of operating the food service and day care programs exceeding the revenues received by \$22,432.

BUDGETARY HIGHLIGHTS

The District's revenues were \$102,248 more than budgeted revenues, a variance of 1.30%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$3.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.94% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$338,622.

The original cost of the District's capital assets was \$7.7 million. Governmental funds account for \$7.1 million with the remainder of \$.6 million in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$3,014,374 at June 30, 2007, compared to \$3,143,152 reported at June 30, 2006. This decrease resulted from the depreciation expense incurred during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 236,245	236,245	0	0	236,245	236,245	0.00%
Buildings	2,567,461	2,685,863	446,913	457,289	3,014,374	3,143,152	-4.27%
Land improvements	150,420	134,998	0	0	150,420	134,998	10.25%
Machinery and equipment	409,728	360,685	36,775	47,134	446,503	407,819	8.66%
Total	\$ 3,363,854	3,417,791	483,688	504,423	3,847,542	3,922,214	-1.94%

Long-Term Debt

At June 30, 2007, the District had \$152,471 in general obligation and other long-term debt outstanding. This represents a decrease of 47.23% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$125,000 at June 30, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$27,471 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2007	2006	Change
General obligation bonds	\$ 125,000	245,000	-48.98%
Early retirement	27,471	43,939	-37.48%
Totals	<u>\$ 152,471</u>	<u>288,939</u>	<u>-47.23%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- There has been some discussion of building a new gym/drama stage along with a couple more classrooms. The estimated costs of these projects are \$4-5 million.
- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Connie Linney, District Secretary/Treasurer, Pekin Community School District, 1062 Birch Avenue, Packwood, Iowa, 52580.

BASIC FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP (Note 3)	\$ 799,473	0	799,473
Other	1,027,448	52,664	1,080,112
Receivables:			
Property tax:			
Delinquent	48,605	0	48,605
Succeeding year	2,728,075	0	2,728,075
Income surtax	144,021	0	144,021
Accounts	36,916	2,100	39,016
Accrued interest - ISCAP (Note 3)	31,640	0	31,640
Due from other governments	236,786	0	236,786
Inventories	0	15,256	15,256
Capital assets, net of accumulated depreciation (Note 4)	3,363,854	483,688	3,847,542
Total assets	8,416,818	553,708	8,970,526
Liabilities			
Accounts payable	49,897	0	49,897
Salaries and benefits payable	7,169	11,604	18,773
ISCAP warrants payable (Note 3)	801,000	0	801,000
ISCAP accrued interest payable (Note 3)	28,960	0	28,960
ISCAP unamortized premium	4,811	0	4,811
Accrued interest payable	406	0	406
Deferred revenue:			
Succeeding year property tax	2,728,075	0	2,728,075
Other	7,043	0	7,043
Unearned revenue	0	4,329	4,329
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	125,000	0	125,000
Early retirement payable	9,956	0	9,956
Portion due after one year:			
Early retirement payable	17,515	0	17,515
Total liabilities	3,779,832	15,933	3,795,765
Net assets			
Invested in capital assets, net of related debt	3,238,854	483,688	3,722,542
Restricted for:			
Debt service	34,850	0	34,850
Talented and gifted	11,290	0	11,290
At risk	3,812	0	3,812
Beginning teacher mentoring program	166	0	166
Salary improvement program	24	0	24
Market factor	2,427	0	2,427
Early intervention	30,793	0	30,793
Capital projects	619,052	0	619,052
Management levy	56,402	0	56,402
Physical plant and equipment levy	149,720	0	149,720
Other special revenue purposes	91,195	0	91,195
Unrestricted	398,401	54,087	452,488
Total net assets	\$ 4,636,986	537,775	5,174,761

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,591,320	312,652	521,215	(1,757,453)	0	(1,757,453)
Special instruction	681,974	5,003	37,356	(639,615)	0	(639,615)
Other instruction	1,337,699	349,410	0	(988,289)	0	(988,289)
	<u>4,610,993</u>	<u>667,065</u>	<u>558,571</u>	<u>(3,385,357)</u>	<u>0</u>	<u>(3,385,357)</u>
Support services:						
Student services	86,846	0	0	(86,846)	0	(86,846)
Instructional staff services	186,990	0	0	(186,990)	0	(186,990)
Administration services	705,919	0	0	(705,919)	0	(705,919)
Operation and maintenance of plant services	525,920	0	0	(525,920)	0	(525,920)
Transportation services	329,979	0	4,037	(325,942)	0	(325,942)
	<u>1,835,654</u>	<u>0</u>	<u>4,037</u>	<u>(1,831,617)</u>	<u>0</u>	<u>(1,831,617)</u>
Non-instructional programs	<u>25,834</u>	<u>0</u>	<u>0</u>	<u>(25,834)</u>	<u>0</u>	<u>(25,834)</u>
Other expenditures:						
Facilities and acquisitions	318,225	0	0	(318,225)	0	(318,225)
Long-term debt interest	8,945	0	0	(8,945)	0	(8,945)
AEA flowthrough	215,287	0	215,287	0	0	0
Depreciation(unallocated) *	138,560	0	0	(138,560)	0	(138,560)
	<u>681,017</u>	<u>0</u>	<u>215,287</u>	<u>(465,730)</u>	<u>0</u>	<u>(465,730)</u>
Total governmental activities	<u>7,153,498</u>	<u>667,065</u>	<u>777,895</u>	<u>(5,708,538)</u>	<u>0</u>	<u>(5,708,538)</u>
Business-Type activities:						
Non-instructional programs:						
Nutrition services	275,921	112,310	153,318	0	(10,293)	(10,293)
Day care services	204,582	188,226	0	0	(16,356)	(16,356)
Total business-type activities	<u>480,503</u>	<u>300,536</u>	<u>153,318</u>	<u>0</u>	<u>(26,649)</u>	<u>(26,649)</u>
Total	<u>\$ 7,634,001</u>	<u>967,601</u>	<u>931,213</u>	<u>(5,708,538)</u>	<u>(26,649)</u>	<u>(5,735,187)</u>
General Revenues:						
Property tax for:						
General purposes			\$ 2,380,198	0		2,380,198
Debt service			129,445	0		129,445
Capital outlay			115,952	0		115,952
Income surtax			181,662	0		181,662
Local option sales and services tax			413,118	0		413,118
Unrestricted state grants			2,606,358	0		2,606,358
Unrestricted investment earnings			177,767	1,168		178,935
Other general revenues			106,658	0		106,658
Total general revenues			<u>6,111,158</u>	<u>1,168</u>		<u>6,112,326</u>
Changes in net assets before capital contributions			<u>402,620</u>	<u>(25,481)</u>		<u>377,139</u>
Capital contributions			<u>0</u>	<u>3,049</u>		<u>3,049</u>
Changes in net assets			<u>402,620</u>	<u>(22,432)</u>		<u>380,188</u>
Net assets beginning of year			<u>4,234,366</u>	<u>560,207</u>		<u>4,794,573</u>
Net assets end of year			<u>\$ 4,636,986</u>	<u>537,775</u>		<u>5,174,761</u>

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP (Note 3)	\$ 799,473	0	0	799,473
Other	266,693	458,690	302,065	1,027,448
Receivables:				
Property tax:				
Delinquent	41,933	0	6,672	48,605
Succeeding year	2,331,174	0	396,901	2,728,075
Income surtax	90,013	0	54,008	144,021
Accounts	36,916	0	0	36,916
Accrued interest - ISCAP (Note 3)	31,640	0	0	31,640
Due from other governments	76,424	160,362	0	236,786
Total assets	\$ 3,674,266	619,052	759,646	5,052,964
Liabilities and fund balances				
Liabilities:				
Accounts payable	\$ 46,792	0	3,105	49,897
Salaries and benefits payable	7,169	0	0	7,169
ISCAP warrants payable (Note 3)	801,000	0	0	801,000
ISCAP accrued interest payable (Note 3)	28,960	0	0	28,960
ISCAP unamortized premium	4,811	0	0	4,811
Deferred revenue:				
Succeeding year property tax	2,331,174	0	396,901	2,728,075
Income surtax	90,013	0	54,008	144,021
Other	7,043	0	0	7,043
Total liabilities	3,316,962	0	454,014	3,770,976
Fund balances:				
Reserved for:				
Debt service	0	0	34,850	34,850
Talented and gifted	11,290	0	0	11,290
At risk	3,812	0	0	3,812
Beginning teacher mentoring program	166	0	0	166
Salary improvement program	24	0	0	24
Market factor	2,427	0	0	2,427
Early intervention	30,793	0	0	30,793
Unreserved	308,792	619,052	270,782	1,198,626
Total fund balances	357,304	619,052	305,632	1,281,988
Total liabilities and fund balances	\$ 3,674,266	619,052	759,646	5,052,964

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 1,281,988
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,363,854
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	144,021
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(406)
Long-term liabilities, including bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(152,471)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 4,636,986</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,362,890	413,118	419,060	3,195,068
Tuition	305,266	0	0	305,266
Other	165,998	21,386	458,840	646,224
State sources	3,145,914	0	237	3,146,151
Federal sources	238,102	0	0	238,102
Total revenues	6,218,170	434,504	878,137	7,530,811
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,522,398	0	45,088	2,567,486
Special instruction	681,974	0	0	681,974
Other instruction	997,574	0	340,125	1,337,699
	4,201,946	0	385,213	4,587,159
Support services:				
Student services	85,637	0	1,209	86,846
Instructional staff services	178,974	0	8,016	186,990
Administration services	601,387	0	111,876	713,263
Operation and maintenance of plant services	501,357	0	23,849	525,206
Transportation services	392,573	0	20,121	412,694
	1,759,928	0	165,071	1,924,999
Non-instructional programs	23,617	0	2,217	25,834
Other expenditures:				
Facilities acquisitions	0	208,699	145,106	353,805
Long-term debt:				
Principal	0	0	120,000	120,000
Interest and fiscal charges	0	0	9,315	9,315
AEA flowthrough	215,287	0	0	215,287
	215,287	208,699	274,421	698,407
Total expenditures	6,200,778	208,699	826,922	7,236,399
Net change in fund balances	17,392	225,805	51,215	294,412
Fund balances beginning of year	339,912	393,247	254,417	987,576
Fund balances end of year	\$ 357,304	619,052	305,632	1,281,988

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 294,412

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 256,222	
Depreciation expense	(310,159)	(53,937)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	120,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

370

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	25,307
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement

16,468

Changes in net assets of governmental activities (page 14)

\$ 402,620

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	School Nutrition	Day Care	Total
Assets			
Cash and pooled investments	\$ 35,762	16,902	52,664
Accounts receivable	0	2,100	2,100
Inventories	15,256	0	15,256
Capital assets, net of accumulated depreciation (Note 4)	20,323	463,365	483,688
Total assets	71,341	482,367	553,708
Liabilities			
Salaries and benefits payable	0	11,604	11,604
Unearned revenue	4,329	0	4,329
TOTAL LIABILITIES	4,329	11,604	15,933
Net Assets			
Invested in capital assets	20,323	463,365	483,688
Unrestricted	46,689	7,398	54,087
Total net assets	\$ 67,012	470,763	537,775

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	School Nutrition	Day Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 112,310	188,226	300,536
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	88,924	131,164	220,088
Benefits	21,150	49,415	70,565
Services	748	0	748
Supplies	148,320	11,871	160,191
Other	448	0	448
Depreciation	16,331	12,132	28,463
TOTAL OPERATING EXPENSES	275,921	204,582	480,503
OPERATING LOSS	(163,611)	(16,356)	(179,967)
NON-OPERATING REVENUES:			
State sources	4,477	0	4,477
Federal sources	148,841	0	148,841
Interest on investments	1,168	0	1,168
TOTAL NON-OPERATING REVENUES	154,486	0	154,486
Changes in net asset before capital contributions	(9,125)	(16,356)	(25,481)
Capital contributions	0	3,049	3,049
Changes in net assets	(9,125)	(13,307)	(22,432)
Net assets beginning of year	76,137	484,070	560,207
Net assets end of year	\$ 67,012	470,763	537,775

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 110,872	0	110,872
Cash received from miscellaneous	737	185,566	186,303
Cash payments to employees for services	(110,074)	(168,975)	(279,049)
Cash payments to suppliers for goods or services	(132,330)	(11,871)	(144,201)
Net cash provided by(used in) operating activities	(130,795)	4,720	(126,075)
Cash flows from non-capital financing activities:			
State grants received	4,477	0	4,477
Federal grants received	126,291	0	126,291
Net cash provided by non-capital financing activities	130,768	0	130,768
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(4,679)	0	(4,679)
Cash flows from investing activities:			
Interest on investments	1,168	0	1,168
Net increase(decrease) in cash and cash equivalents	(3,538)	4,720	1,182
Cash and cash equivalents at beginning of year	39,300	12,182	51,482
Cash and cash equivalents at end of year	\$ 35,762	16,902	52,664
Reconciliation of operating loss to net cash provided by(used in) operating activities:			
Operating loss	\$ (163,611)	(16,356)	(179,967)
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:			
Commodities consumed	22,550	0	22,550
Depreciation	16,331	12,132	28,463
Increase in inventories	(5,364)	0	(5,364)
Increase in accounts receivable	0	(2,100)	(2,100)
Increase in salaries and benefits payable	0	11,604	11,604
Decrease in unearned revenue	(701)	(560)	(1,261)
Net cash provided by(used in) operating activities	\$ (130,795)	4,720	(126,075)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 35,762	16,902	52,664

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$22,550.

During the year ended June 30, 2007, the District received capital contributions valued at \$3,049 from the Special Revenue, Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Pekin Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Pekin and Packwood, Iowa, and the predominate agricultural territory in Washington, Keokuk, Wapello and Jefferson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pekin Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Pekin Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Washington, Keokuk, Wapello and Jefferson Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition and Day Care Fund. The Nutrition fund is used to account for the food service operations of the District. The Day Care Fund is used to account for the child care operations.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded

when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Day Care Fund equipment	500
Other machinery and equipment	2,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The unearned revenues in the Day Care Fund are monies collected in advance for tuition. The revenue will be considered earned when services are provided. The tuition and lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 691,019</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) **Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a

semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/06	6/28/07	\$ 0	25,403	0	23,659
2006-07B	1/26/07	1/25/08	269,312	6,079	270,000	5,166
2007-08A	6/28/07	6/27/08	530,161	158	531,000	135
Total			\$ 799,473	31,640	801,000	28,960

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	200,000	200,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 236,245	0	0	236,245
Total capital assets not being depreciated	236,245	0	0	236,245
Capital assets being depreciated:				
Buildings	4,700,636	6,639	0	4,707,275
Land improvements	475,233	28,941	0	504,174
Machinery and equipment	1,515,691	220,642	161,780	1,574,553
Total capital assets being depreciated	6,691,560	256,222	161,780	6,786,002
Less accumulated depreciation for:				
Buildings	2,014,773	125,041	0	2,139,814
Land improvements	340,235	13,519	0	353,754
Machinery and equipment	1,155,006	171,599	161,780	1,164,825
Total accumulated depreciation	3,510,014	310,159	161,780	3,658,393
Total capital assets being depreciated, net	3,181,546	(53,937)	0	3,127,609
Governmental activities capital assets, net	\$ 3,417,791	(53,937)	0	3,363,854
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Capital assets being depreciated:				
Buildings	518,783	0	0	518,783
Machinery and equipment	152,790	7,728	31,175	129,343
Total capital assets being depreciated	671,573	7,728	31,175	648,126
Less accumulated depreciation for:				
Buildings	61,494	10,376	0	71,870
Machinery and equipment	105,656	18,087	31,175	92,568
Total accumulated depreciation	167,150	28,463	31,175	164,438
Total capital assets being depreciated, net	504,423	(20,735)	0	483,688
Business-type activities capital assets, net	\$ 504,423	(20,735)	0	483,688

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 32,958

Support services:

Operation and maintenance of plant 714

Transportation 137,927

171,599

Unallocated depreciation 138,560

Total governmental activities depreciation expense \$ 310,159

Business-type activities:

Food service operations \$ 16,331

Day care operations 12,132

Total business-type activities depreciation expense \$ 28,463

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 245,000	0	120,000	125,000	125,000
Early retirement	43,939	0	16,468	27,471	9,956
Total	\$ 288,939	0	136,468	152,471	134,956

General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of June 1, 2002			
		Principal	Interest	Total	
2008	3.900 %	\$ 125,000	4,875	129,875	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum of \$20,000 per individual. Early retirement benefits paid during the year ended June 30, 2007 totaled \$16,468. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$225,832, \$214,703 and \$204,155, respectively, equal to the required contributions for each year.

(7) Risk Management

Pekin Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2007 was \$512,355.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

Pekin Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$215,287 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 4,146,558	301,704	4,448,262	4,249,619	4,249,619	198,643
State sources	3,146,151	4,477	3,150,628	3,310,966	3,310,966	(160,338)
Federal sources	238,102	148,841	386,943	323,000	323,000	63,943
Total revenues	7,530,811	455,022	7,985,833	7,883,585	7,883,585	102,248
Expenditures:						
Instruction	4,587,159	0	4,587,159	4,996,418	4,996,418	409,259
Support services	1,924,999	0	1,924,999	2,397,000	2,397,000	472,001
Non-instructional programs	25,834	480,503	506,337	630,420	630,420	124,083
Other expenditures	698,407	0	698,407	698,679	698,679	272
Total expenditures	7,236,399	480,503	7,716,902	8,722,517	8,722,517	1,005,615
Excess(deficiency) of revenues over(under) expenditures	294,412	(25,481)	268,931	(838,932)	(838,932)	(1,107,863)
Other financing sources, net	0	3,049	3,049	0	0	(3,049)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	294,412	(22,432)	271,980	(838,932)	(838,932)	(1,110,912)
Balances beginning of year	987,576	560,207	1,547,783	1,195,104	1,195,104	352,679
Balances end of year	\$ 1,281,988	537,775	1,819,763	356,172	356,172	1,463,591

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, the District exceed its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 81,746	91,195	96,674	269,615	32,450	302,065
Receivables:						
Property tax:						
Current year delinquent	2,129	0	2,143	4,272	2,400	6,672
Succeeding year	150,000	0	116,726	266,726	130,175	396,901
Income surtax	0	0	54,008	54,008	0	54,008
Total assets	\$ 233,875	91,195	269,551	594,621	165,025	759,646
Liabilities and fund balances						
Liabilities:						
Accounts payable	\$ 0	0	3,105	3,105	0	3,105
Deferred revenue:						
Succeeding year property tax	150,000	0	116,726	266,726	130,175	396,901
Income surtax	0	0	54,008	54,008	0	54,008
Total liabilities	150,000	0	173,839	323,839	130,175	454,014
Fund balances:						
Reserved for debt service	0	0	0	0	34,850	34,850
Unreserved fund balances	83,875	91,195	95,712	270,782	0	270,782
Total fund balances	83,875	91,195	95,712	270,782	34,850	305,632
Total liabilities and fund balances	\$ 233,875	91,195	269,551	594,621	165,025	759,646

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 115,030	0	174,585	289,615	129,445	419,060
Other	15,429	348,969	94,442	458,840	0	458,840
State sources	76	0	76	152	85	237
TOTAL REVENUES	130,535	348,969	269,103	748,607	129,530	878,137
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	45,088	0	0	45,088	0	45,088
Other instruction	0	340,125	0	340,125	0	340,125
Support services:						
Student services	1,209	0	0	1,209	0	1,209
Instructional staff	806	0	7,210	8,016	0	8,016
Administration services	34,274	0	77,602	111,876	0	111,876
Operation and maintenance of plant services	23,849	0	0	23,849	0	23,849
Student transportation	20,121	0	0	20,121	0	20,121
Non-instructional programs:						
Food service operation	2,217	0	0	2,217	0	2,217
Other expenditures:						
Facilities acquisitions	0	0	145,106	145,106	0	145,106
Long-term debt:						
Principal	0	0	0	0	120,000	120,000
Interest and fiscal charges	0	0	0	0	9,315	9,315
TOTAL EXPENDITURES	127,564	340,125	229,918	697,607	129,315	826,922
NET CHANGE IN FUND BALANCES	2,971	8,844	39,185	51,000	215	51,215
FUND BALANCES BEGINNING OF YEAR	80,904	82,351	56,527	219,782	34,635	254,417
FUND BALANCES END OF YEAR	\$ 83,875	91,195	95,712	270,782	34,850	305,632

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 974	0	0	974
Music Department	475	1,000	0	1,475
HS Cross Country	2,153	4,117	6,034	236
HS Boys Basketball	1,435	5,333	6,865	(97)
HS Football	3,622	33,558	32,448	4,732
HS Baseball	0	14,120	14,217	(97)
HS Boys Track	5,936	10,452	8,527	7,861
HS Wrestling	0	6,778	6,875	(97)
HS Girls Basketball	587	4,075	4,759	(97)
HS Volleyball	12	2,687	1,712	987
HS Softball	1,274	7,118	7,639	753
HS Girls Track	3,337	6,295	8,095	1,537
National Honor Society	0	983	18	965
Athletics	18,354	19,201	14,818	22,737
Activity Charges	0	15,313	15,313	0
Class of 2002	518	0	518	0
Class of 2007	1,910	35	1,945	0
Class of 2008	0	15,699	12,513	3,186
Milk Machine	0	1,589	1,583	6
Cheerleaders	911	2,167	2,735	343
Concessions	4,480	39,261	40,460	3,281
Dramatics/Musical	1,941	441	492	1,890
Spanish Club	1,032	1,073	1,466	639
FFA	4,451	31,331	31,896	3,886
FHA	7,054	5,879	6,390	6,543
Student Music	0	2,894	2,832	62
Student Insurance	0	1,130	1,130	0
Calendar	1,260	1,920	931	2,249
Student Activity	0	5,924	5,352	572
Student Council	639	489	461	667
Yearbook	1,739	9,421	9,299	1,861
After Prom	668	12,192	12,542	318
Middle School	7,240	11,498	8,226	10,512
Elementary Concession	0	8,521	8,521	0
Fitness Room	1,601	320	0	1,921
Industrial Arts	179	206	142	243
Drill Team	356	590	542	404
8th Grade Field Trip	3,928	52,108	52,031	4,005
Musical	0	6,177	5,548	629
Buy a Farm	239	0	239	0
Elementary Activities	4,046	7,074	5,011	6,109
Total	\$ 82,351	348,969	340,125	91,195

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 3,195,068	2,957,599	2,853,138	2,492,680
Tuition	305,266	330,893	261,287	260,590
Other	646,224	494,350	444,753	448,049
State sources	3,146,151	3,079,811	3,053,864	2,806,402
Federal sources	238,102	261,531	290,661	171,328
Total	<u>\$ 7,530,811</u>	<u>7,124,184</u>	<u>6,903,703</u>	<u>6,179,049</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,567,486	2,681,722	2,515,018	2,496,323
Special instruction	681,974	771,791	637,900	708,829
Other instruction	1,337,699	877,824	925,675	775,570
Support services:				
Student services	86,846	133,614	105,128	175,913
Instructional staff services	186,990	154,989	132,051	95,043
Administration services	713,263	655,076	539,383	522,027
Operation and maintenance of plant services	525,206	577,475	546,830	690,112
Transportation services	412,694	607,359	428,914	415,915
Non-instructional programs	25,834	2,056	127,791	113,669
Other expenditures:				
Facilities acquisitions	353,805	13,422	294,017	6,000
Long-term debt:				
Principal	120,000	143,828	266,944	156,789
Interest	9,315	11,540	21,266	23,450
AEA flow-through	215,287	205,154	203,860	202,864
Total	<u>\$ 7,236,399</u>	<u>6,835,850</u>	<u>6,744,777</u>	<u>6,382,504</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Pekin Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Pekin Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 20, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pekin Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pekin Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pekin Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Pekin Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Pekin Community School District's financial statements that is more than inconsequential will not be prevented or detected by Pekin Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Pekin Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pekin Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pekin Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Pekin Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pekin Community School District and other parties to whom Pekin Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pekin Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2008

PEKIN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-07 Clothing Purchased for Coaches - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - After investigating the charge it was determined that this was money generated by team camps that was put into the Activity Fund. We will try to work with the Athletic Boosters to be a depository - expenditure source for coaches needs.

Conclusion - Response accepted.

- I-C-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - Every year we have a few checks (3-4) that are returned and not claimed. These checks will be voided or submitted to the Treasurer of Iowa. We attempted to submit them to the Treasurer of the State of Iowa and our Board Secretary was unable to connect to the website because of the lack of Administrator Rights.

Conclusion - Response acknowledged. The report for unclaimed property should be filed annually. If you are having difficulties completing the report, you should request assistance from the Treasurer of the State of Iowa.

- I-D-07 Photo Image Checks - We noted during our audit that District receives their checks from the bank as photo images showing only the front of the checks. Chapter 544D.114 of the Code of Iowa requires both the front and back of check images to be retained.

Recommendation - The District should contact the bank to rectify the situation. The District should receive the photo images showing both the front and back of the checks or the original issued check.

Response - We have contacted Pilot Grove Savings Bank and they will be sending a letter stating that this is not a requirement of the State of Iowa.

Conclusion - Response acknowledged. Chapter 554D.114 of the Code of Iowa does allow for the retention of records in electronic form. Chapter 291.6 of the Code of Iowa requires as a duty of the Board Secretary preservation of records. Although the bank may have records available to them, the District has not formally or informally identified that the bank is serving as a custodian of the public record. We believe based on an informal advice document from an assistant attorney general that the bank maintaining the electronic check front and back may comply with the requirement of record retention. However, availability and cost of retrieval of those records should be agreed upon. The District has not preserved the records. The bank procedures have identified an option of record retention, but the District should formally identify the bank as custodian of public records. In addition, the District should consider the lack of availability of the backs of the checks in the District's internal control procedures and processes.

- I-E-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. A more specific example of these instances is as follows:

Padlock fees, towel fees and shop fees were recorded in the Student Activity Fund accounts. These fees should be receipted into the General fund.

Donations from Target and Box Tops for Education recorded in the middle school and elementary funds. These donations do not specify the purpose other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

We also noted during our audit that the Student Activity Fund received interest income during the year. The interest was not however allocated to the various student activity accounts that earned the interest.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. The District also should allocate the interest earned in the Student Activity Fund to the various student accounts that earned the interest income.

Response - The District was trying to protect the drain on the General Fund by charging expenditures which were considered a marginal expense that could go to the Activity Fund. The District will work closer to not move expenditures into the Activity Fund if it appears that they should be charged to the General Fund.

Conclusion - Response acknowledged. The revenues are being posted to the inappropriate fund. If the District places the revenues in the General Fund, the funds will be available to pay for expenses in the General Fund.

- I-F-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - We have very few non-teaching coaches; most of them complied with the requirement. The District will be more vigilant to be certain that all non-teacher coaches comply.

Conclusion - Response accepted.

- I-G-07 Drug Free Grant - We noted during our audit that the Drug Free Grant general ledger expenditures were not used to file the quarterly reports to the State.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures. The Drug Free Grant quarterly reports file with the State need to be reconciled to the general ledger.

Response - The Drug Free Grant was administrated by Mr. Armstrong who failed to turn in the Drug Free Grant quarterly reports. Mr. Harper is in charge of the Drug Free Grant and he will complete the required forms.

Conclusion - Response accepted.

PEKIN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted. However, the District did exceed its unspent authorized budget for the year ended June 30, 2007 by \$219,903.

Recommendation - The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

Response - We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-07 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out was overstated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.